

UNCLAS SECTION 01 OF 04 MAPUTO 000726

SIPDIS

SENSITIVE

AF/S - HTREGER

E.O. 12958: N/A

TAGS: [EMIN](#) [ENRG](#) [EPEP](#) [ETRD](#) [EINV](#) [MZ](#)

SUBJECT: MOZAMBIQUE - PETROLEUM EXPLORATION RIGHTS INTEREST  
TWO U.S. COMPANIES; ENERGY/MINING OVERVIEW

Sensitive But Unclassified. Confidential Business  
Information. Not for placement on the Internet.

**¶1. (SBU)** Summary: The GRM will open a bidding round in July for deepwater exploration rights off the coast of the northern province of Cabo Delgado. Two American companies, Anadarko and Vanco, have indicated to the Embassy and the GRM that they believe the region may have oil, and plan to enter bids. They are the first U.S. companies to show serious interest in oil exploration in Mozambique in nearly a decade. Mozambique has negotiated contracts in recent years with various international firms for exploration and production of natural gas, titanium sands, and coal. Several of these projects are now starting to produce, while others remain delayed due to lack of available power sources and/or investment. American investment in these sectors is minimal.  
End Summary.

Oil

----

**¶2. (U)** On May 29 Minister of Natural Resources (MNR) Esperanca Bias announced that four offshore lots in the Rovuma Basin region of Cabo Delgado province will be opened up for competitive bidding by companies wishing to explore for oil and gas. The GRM will announce terms of the bidding process in July; according to ministry sources, companies will have six months in which to submit bids. The Rovuma river demarcates the Mozambique-Tanzania border; the Rovuma Basin exploration area in question lies south of that border. Two of the lots for bid (#1 and #4) are located offshore just north of the city of Mocimboa de Praia, and two (#3 and #6), are located further south, off the provincial capital, Pemba. The MNR announcement was made shortly before the inauguration of the Ninth African Oil & Gas Trade & Finance Conference, held in Maputo from May 31 through June 3. Many international companies interested in the bid lots were present at the conference.

**¶3. (SBU)** Two American companies, Vanco Energy Company and Anadarko International Energy Company, attended and indicated that they plan to submit bids on lots #1 and #4. Vanco was particularly aggressive at the conference, hosting a reception at which company founder and president Gene Van Dyke made his interest publicly known. During the conference Mr. Van Dyke met with Minister Bias to get a better sense of how the process would work, and also met with Embassy officials. Vanco is the largest holder of deepwater exploration acreage in Africa, with holdings in five countries. Notably, it has partnered with ExxonMobil to explore the Majunga Salt Basin off the northwest shore of Madagascar, directly across the Madagascar Channel from the Rovuma Basin of Mozambique. In recent years Vanco has started drilling in its Morocco and Gabon properties.

**¶4. (SBU)** Anadarko took a more low-key approach to lobbying during the conference, but company interest was just as high. Anadarko representatives plan to return to Mozambique in July once the bidding terms are released. Anadarko is already a major producer in Africa, engaged in onshore production in Algeria and offshore drilling in Tunisia and Gabon. Anadarko is a larger company than Vanco, producing considerably more gas and oil both in North America and overseas - a fact that was not lost on MNR officials in recent conversations with emboff. Vanco and Anadarko will not be the only bidders on these lots. Woodside (Australia), Tullow (Ireland), ENI (Italy), Stirling Energy (UK), Petrobras (Brazil), Statoil (Norway), and Shell/South Africa are also considered likely bidders, among others. Some of these companies may pull out, however. In November 2004 Tanzania held a bidding round for exploration in geologically similar deepwater terrain and received many inquiries of interest, although only three bids.

**¶5. (SBU)** The bidding process announced by GRM will be the first of its kind in the oil sector; in the past, the GRM has always negotiated oil exploration rights directly with a pre-selected company rather than via an open bidding process. For example, in 2004 the GRM decided to negotiate a contract to explore lots #2 and #5 in the Rovuma Basin region directly with Statoil of Norway; contract negotiations are still in process. Since bidding for oil exploration contracts is a new process in Mozambique and the terms are yet to be announced, it is difficult to determine what the GRM's ultimate criteria will be. In conversations with the

Embassy, Vanco representatives said that they believed that the most important factors would be the perceived strength of the bidder's understanding of the region's geology, the speed at which seismic studies would be carried out, and financial capability. Recent emboff conversations with MNR officials also suggest that the Mozambicans are interested in each bidder's history of undertaking actual production activities; they are suspicious of companies that may see the lots primarily for their speculative value. The key figure in the GRM during this process will be Arsenio Mabote, Chairman of the National Institute for Petroleum (part of the MNR). In recent years Mabote negotiated the terms of the GRM's natural gas exploration and production agreement with Sasol of South Africa, and also, as then National Director of Coal and Hydrocarbons, handled the 2004 open bid process for the Moatize coal mine.

¶6. (SBU) The big question underlying the entire bid process is a simple one: does the Rovuma Basin have commercially viable oil reserves? Many companies believe that it does, based on basic geologic information available from the GRM and data available from Lonropet, a British firm that carried out exploration in parts of the Rovuma Basin in the late 1990s but never did any drilling. (Note: No wells have ever been drilled offshore in the Mozambican part of the Rovuma basin. End Note.) The overlapping layers of Jurassic rocks in the basin are considered very similar to the geology of river basins in other parts of Africa (Nigeria, Ghana, Gabon), where commercially viable deposits have been found. Also, many minor oil and gas seeps have been identified in the Mozambican and Tanzanian parts of the Rovuma Basin. Despite these encouraging signs, however, many industry observers at the conference remarked that reserves of gas but very little oil have been discovered by recent exploration in southeast Africa. Some pointed to the apparent difficulties experienced by the Malaysian company Petronas, which was granted exploration rights in 2002 to a broad offshore swath of the Zambezi Basin of Central Mozambique. Petronas so far has carried out extensive seismic studies, valued at up to \$30 million over the past three years, but has not found indications of enough oil or natural gas to attract investment for further drilling. The company is in danger of defaulting on its agreement with the GRM, which required drilling to commence within three years. GRM officials and Vanco representatives state, however, that the geology of the Zambezi Basin is different and less compelling than that of the Rovuma Basin.

#### Natural Gas

-----  
¶7. (U) Natural gas is by far the most advanced of all Mozambique's natural resource sectors. Sasol Petroleum International is now the biggest natural resources producer in Mozambique. In March 2004 Sasol made its first sales of natural gas from the Pande and Temane oil fields in southern Mozambique, of which it holds a 70 percent share. This followed the November 2003 completion of a central processing facility in Inhambane province and a gas pipeline to South Africa finished three months later. (Note: The GRM is in the midst of negotiations to secure a 30 percent ownership in the Sasol central processing facility. It also holds the rights to purchase a 25 percent ownership in the Sasol pipeline at specific outtake points, and plans to take steps toward purchase when appropriate investors are identified. End note.) Sasol Petroleum International announced at the Maputo conference last week that it is now producing approximately 90 MGJ/year from the Pande and Temane fields, and expects to be at 120 MGJ/year in 2008. Pande and Temane are world-class gas fields with 4.81 GHP combined in proven reserves. Mozambique has two other smaller proven natural gas fields at Inhassoro and Buzi; neither is in production. The GRM has also granted a concession for gas exploration in the Inhaminga block of Central Mozambique to the Norwegian firm DNO, with the U.S. firm Wilrusco owning a 20% share. DNO is carrying out nearly all the operational work in the area, though no drilling has yet been done.

#### Coal

-----  
¶8. (U) Mozambique is scheduled to return to the ranks of significant coal producers by 2007. In November 2004 the Brazilian giant Companhia Vale do Rio Doce (CVRD) won in a competitive bidding process the rights to begin production at the long-stagnant Moatize coal mine in Tete province. (Note: CVRD owns 95% of the Moatize concession, with the Connecticut-based American Metals and Coal International owning the other 5%. End Note.) CVRD is currently undertaking its feasibility study, to be released to the GRM early next year, in which it will determine not only where to mine, but also whether to build a 1500 megawatt coal-fired power station. CVRD plans to export the majority of coal mined at Moatize, but at least 30% of the coal will be retained within Mozambique. The American firm Fluor hopes to partner with CVRD.

#### Power Needs

-----  
19. (SBU) Visiting U.S. Department of Energy officer Carolyn Gay and emboff spoke at length with GRM's Minister of Energy Salvador Namburete May 31 about opportunities and challenges in Mozambique's power sector. According to Namburete, the GRM foresees a power shortage in Mozambique and in Southern Africa in general. It believes it will be necessary to boost power production quickly for greater industrial output, to facilitate further mining and exploration, and to increase rural electrification. For example, the GRM would like to expand the massive Mozal aluminum smelter near Maputo, but an extra 550 megawatts would be needed to do so. Mozambique does not have the energy internally for this and fears the costs of importing energy. Also, it will take at least an additional 150 megawatts to commence production of the Corridor Sands project, scheduled to start in two years (see para 14 below). Namburete added that during the negotiation with CVRD for the Moatize coal concession, the government was less concerned with obtaining of a high percentage of royalties than it was with securing additional power sources.?

10. (U) The construction of a coal-fired plant in Tete is one way to solve these and many other energy needs. But, according to Namburete, the GRM is particularly focused on increasing its hydroelectric power reserves. Mozambique is seeking investors to build a second massive dam inside Mozambique on the Zambezi river, approximately 100 kilometers downstream from Cahora Bassa dam; Minister Namburete suggested one with a hydroelectric generation capacity of 1300 megawatts. Also, the GRM wants to add a second power station at Cahora Bassa, on the north side of the dam. The Ministry of Energy has identified several other rivers for smaller dams producing less than 150 megawatts.

#### Cahora Bassa Dam

11. (U) To construct a second power station on the north side of Cahora Bassa, Mozambique would need to reach a settlement with Portugal. This is because the Cahora Bassa Hydroelectric Company, which manages dam operations, is 82% Portuguese-owned and 18% Mozambican-owned. Renegotiation of the entire Cahora Bassa complex (including the use of the waters of the reservoir behind the dam) is at the top of the Ministry of Energy's goals for the next few years - and renegotiation may not be an impossible goal. Energy produced at the dam is sold primarily to ESKOM in South Africa, and then sold back to Mozambique at a higher price. In early 2004 the price of electricity sold to ESKOM was revised upward, although it still was only a fraction of the international and regional price. Mozambique and Portugal will be meeting on June 14 in Lisbon to discuss a possible resolution to the Cahora Bassa Dam issue. The biggest obstacle to reaching agreement, now as always, is servicing the Cahora Bassa Hydroelectric Company's huge debt to the Portuguese treasury.

#### Heavy Sands

12. (SBU) Mining of several "heavy sands" deposits is scheduled to come on-line in the next couple years. Two projects stand out: Moma Sands, located in the northern province of Nampula and Corridor Sands, in the southern province of Gaza. In August 2004 Kemare Resources of Ireland contracted an Australian firm to commence construction of a processing facility for the Moma Sands project. Construction is now about half finished, according to company sources, and Kemare hopes to begin production in early 2006. The American firm Fluor made a large but unsuccessful bid for constructing the Moma facility. Kemare expects to produce 615,000 tons of ilmenite minerals per year, including 40,000 tons of premium ilmenite, 20,000 tons of premium zircon, and 15,000 tons of rutile. Kemare projects huge profits in Mozambique following completion of its factory, since it foresees total production costs at approximately \$23 million per year and annual revenues in the \$85-\$90 million range.

13. (SBU) The Corridor Sands heavy sands project in Gaza province is less advanced. The Australian firm WMC Resources, Ltd. purchased full rights to the project area in January 2005. They had planned to designate a project management contractor by the end of 2005 and to begin construction of processing facilities in 2006. (Fluor is bidding on this contract, too.) WMC targeted production levels of approximately 400,000 tons per year by 2008, also focusing primarily on ilmenite, zircon, and rutile. The project had been delayed due to concerns over lack of available power. On June 3 the mining giant BHP Billiton purchased 55% of WMC Resources, effectively taking over the company. It is unclear what this move will mean for the Corridor Sands project.

La Lime